

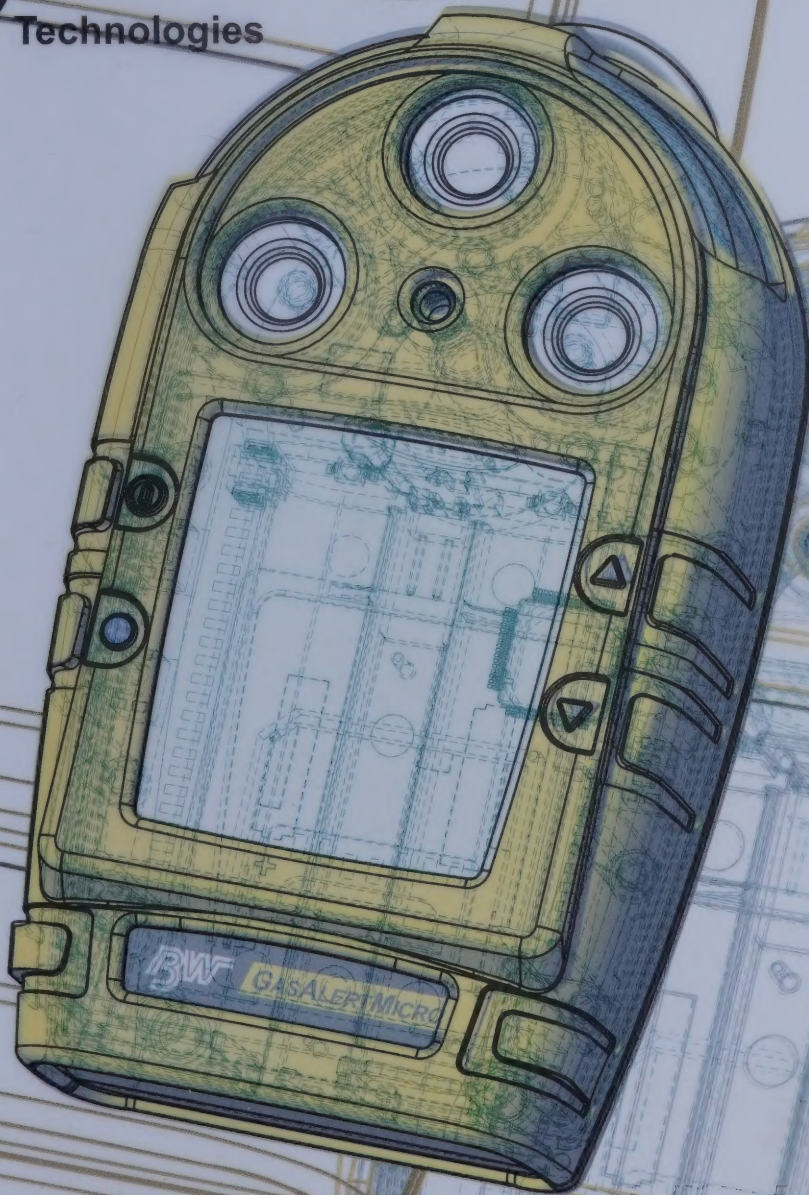
AR62

INNOVATORS IN GAS DETECTION

**BW**  
Technologies

Winnipeg Business Reference Library  
University of Alberta  
218 Business Building  
Edmonton, Alberta T6G 2R6

From Concept  
to Proven  
Success

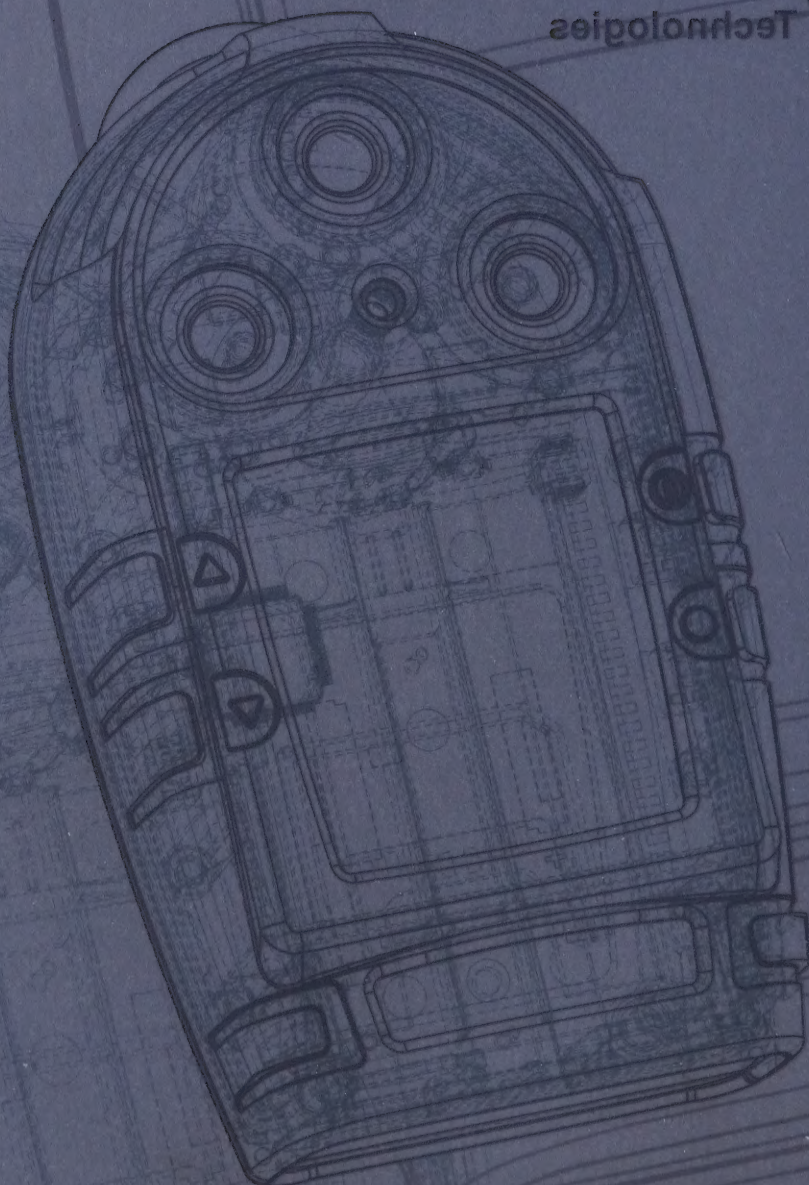


ANNUAL REPORT  
for the year ended  
April 30, 2003



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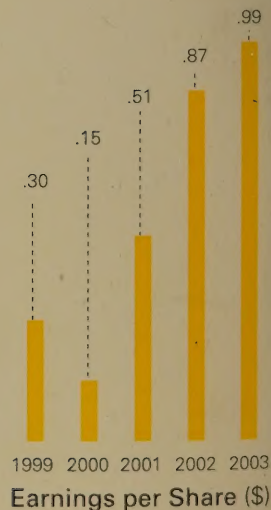
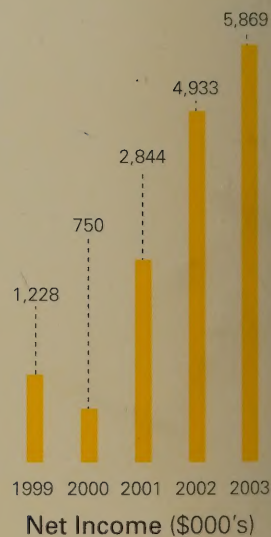
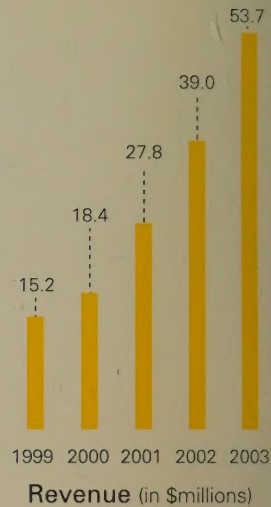
### Our Mission

To become the dominant manufacturer and marketer of the most technologically advanced gas detection instruments in the world.

*BW Technologies is consistently recognized in the national rankings of top companies. This year the company placed in the top half of Report on Business' Top 1000 companies across Canada, as well as Canadian Business' Tech 100.*

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*On the front cover: Several views of BW Technologies' GasAlertMicro, illustrating its journey from concept through design to the fully completed product in the field.*







**The GasAlertMicro**

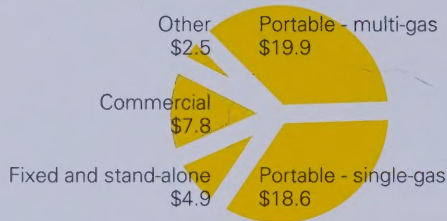
Total annual sales: \$7,733,000

Percentage of total revenue: 14.3%

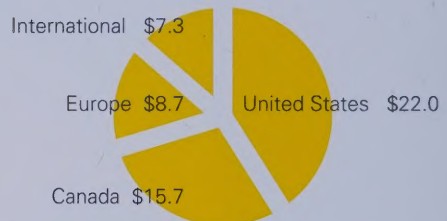
From drawing board to market: only 7 months



**Product Revenue - 2003**  
(in millions)

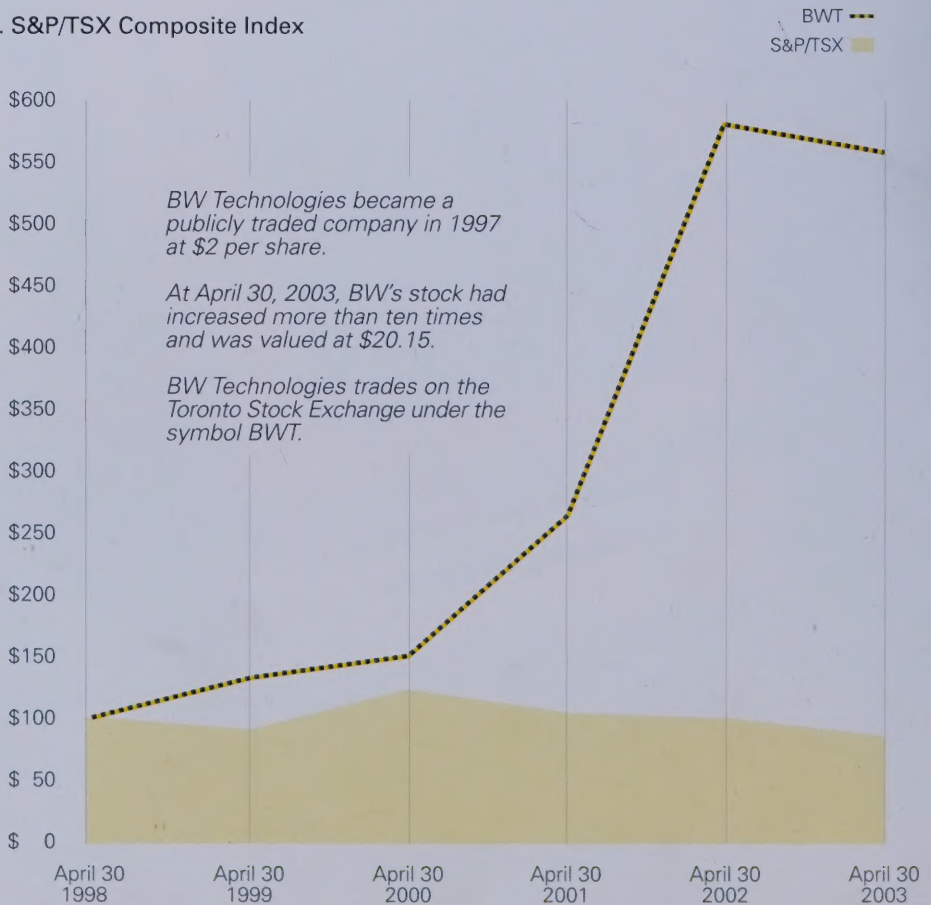


**Geographical Division of Revenue - 2003**  
(in millions)



**Total Revenue: \$53.7 million**

**BWT vs. S&P/TSX Composite Index**



## Message to Our Shareholders

Fiscal 2003 saw the completion of another record year for BW Technologies and I am pleased to report we have now achieved fifteen consecutive quarters of year over year revenue growth, along with thirteen consecutive quarters of year over year net income growth. Fourth quarter revenue increased 56% over the fourth quarter of last year to a record \$18.3 million, which helped propel BW's annual revenue past the \$50 million milestone to end the year at \$53.7 million, an increase of 38% over last year. Net income in the fourth quarter rose 24% to a record \$2.5 million while net income for the year increased 19% to \$5.9 million.

Several economic factors, including the outbreak of SARS, the war in Iraq, the depressed United States economy and the dramatic increase in the value of the Canadian dollar compared to the United States dollar made this year one of the most turbulent economic periods in BW's history. These economic factors impacted our United States operations the most. Revenue growth from BW's traditional products was held to 6% during the fourth quarter reaching a total of \$5.84 million while the remaining growth in the U.S. was a result of acquiring Vulcain Alarme.

Due to the overall state of the U.S. economy and the state of the gas detection market there,

our performance was substantially below our traditional level of growth. However, we are continually adapting our overall business strategy for the U.S. market and believe we are well positioned to return to historic growth levels once a more favourable economic climate returns. In the meantime, we are focusing our resources towards the confined space entry market, in order to best succeed in the current environment. The confined space market, which includes utilities, municipalities and the telecom industry, is estimated to be worth \$300-million U.S. worldwide and is a key opportunity for current and future growth.

Sales of industrial safety products in Canada increased by 26% for the year. Overall, Canadian sales increased by 73% for the year, with commercial safety products accounting for the additional increase. The launch of the GasAlertMicro in July 2002 was key to the company's sales in Canada. Market acceptance of the product has been strong within both BW's traditional distribution channels and a high volume end user from the telecom industry. The U.S. market launch of the GasAlertMicro occurred in February 2003. The GasAlertMicro is BW's core product for the confined space entry market. Micro sales represent a significant component of the 63% increase in multi-gas products for the year.

In October 2002, BW purchased Vulcain Alarme Inc. The company has achieved \$6.8 million in sales through Vulcain since that date to year end. Vulcain designs, develops and manufactures gas detection instruments used in parking garages, office towers, schools, refrigeration plants and other commercial applications. The integration between the two companies has been very successful and the potential in the commercial market is very promising. Vulcain recently moved to a new facility in Brossard, Quebec, which will ensure its ability to effectively manage its growth. With the continued success of the Vulcain acquisition, we are now looking at additional opportunities to help fuel growth outside of our core industrial safety market.

BW Europe's total sales increased by 40% for the year reaching a record \$8.7 million. Recently, we completed the regulatory approvals for all of BW's core products in Europe, further enhancing BW Europe's growth opportunities in fiscal 2004.

International sales increased by 22% for the year reaching \$7.3 million. The international group has had excellent growth over the last six months with demand from the Middle East and Pacific Rim driving the growth. The regional sales office that we opened in Dubai in 2001 continues to capture market share in this region and we have also added a full time salesperson based in Hong Kong to service the growing Chinese market.

Overall, fiscal 2003 was a significant year in BW's development. We undertook our first major acquisition with the purchase of Vulcain, continued our aggressive product development program highlighted by the launch and ongoing success of the GasAlertMicro, broadened our worldwide exposure with the addition of sales offices in Australia, Hong Kong and Belgium, and completed another year of record rev-

enues and net income. Fiscal 2003 was also an excellent litmus test for BW's long-term strategic plan as external economic factors placed significant downward pressure on the company. Our ability to increase shareholder value and further our market penetration in the current economic climate is a testament to the efforts of the entire company.

As we begin fiscal 2004, the uncertainty over the United States economy and the increased value of the Canadian dollar will have a negative effect on operating results. While these factors create some short-term instability, the outlook for all of fiscal 2004 and into the future looks strong. We have successfully proven that we can continue to grow and produce results in even the toughest of economic climates. Our low cost, leading edge products are an excellent fit for any economic climate, providing us with insulation against downturn and a significant upside once the economy recovers. With our ongoing product development program set to launch an exciting array of products, combined with our increased worldwide penetration from this year's investment in our sales force, the company is positioned to make BW products an even more readily recognized name in the global industry.



Yours truly,  
Cody Z. Slater  
President and Chief Executive Officer





*BW's Management Team:  
(L to R) Bob Henderson, Kevin Meyers, Cody Slater,  
Barry Moore, Bryan Bates, Tom Jones*



## Management Discussion and Analysis

### Results of Operations

BW Technologies ("BW", the "company") achieved revenue growth of 38% in fiscal 2003 to reach \$53,666,000. Revenue growth from BW's traditional business was 20% with the remaining increase resulting from the acquisition of Vulcain Alarme Inc. ("Vulcain") on October 7, 2002.

Net income for the year ended April 30, 2003 was \$5,869,000 (\$0.99 per share), an increase of 19% over the comparable 2002 figure of \$4,933,000 (\$0.87 per share).

### Summary of Financial Performance

(thousands of dollars except per share amounts)

Annual	2003			2002		2001	2000	
Revenue	\$53,666			\$39,008		\$27,810	\$18,351	
Gross margin	26,447			19,601		12,728	8,599	
Net income	5,869			4,933		2,844	750	
Earnings before interest, taxes, depreciation & amortization	11,661			9,802		6,200	3,390	
Operating cash flow	8,764			7,021		5,507	3,289	
Operating cash flow per share	1.48			1.24		1.00	.66	
Earnings per share								
Basic	.99			.87		.51	.15	
Diluted	.92			.82		.49	.15	
Quarterly	2003				2002			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	\$18,323	\$14,292	\$12,296	\$8,755	\$11,750	\$9,891	\$9,341	\$8,026
Gross margin	9,132	7,075	6,257	3,983	6,204	4,773	4,824	3,800
Net income	2,536	1,466	1,119	748	2,051	1,232	963	687
Earnings per share								
Basic	0.42	0.25	0.19	0.13	0.36	0.22	0.17	0.12
Diluted	0.40	0.23	0.17	0.12	0.34	0.20	0.16	0.12



## Overview

BW designs, manufactures and markets instruments used to detect, monitor and, in many instances, measure the presence of dangerous concentrations of gas in ambient air. Its products are used to protect personnel and property in a variety of different industrial and commercial applications worldwide. These include petroleum production and refining facilities, steel mills, mines, parking garages, municipal waste disposal facilities and office towers.

The company's goal is to become the dominant manufacturer and marketer of the most technologically advanced gas detection instruments. BW intends to achieve this by providing products which offer the lowest cost of ownership, the highest level of reliability and the most advanced of technical features.

These goals are to be reached primarily by anticipating user needs and by fulfilling those needs through innovative product design and development. New product engineering is programmed to emphasize low manufacturing costs and short turnaround time to market as an integral part of overall development. Successful and efficient product development is critical to BW's growth and it will continue to be a major initiative.

New, low-cost BW products have, in some instances, expanded the entire gas detection market while improving the protection afforded to workers. This is because gas detection instruments can now be economically provided to all employees at a given facility instead of relying upon supervisors to take periodic readings in designated areas. The most notable BW breakthrough products in this area were the maintenance-free GasAlertClip and the full-function, highly economical GasAlertMicro.

BW's products are manufactured at its two-year-old 33,000 square foot building in Calgary, Alberta, and its four-month-old facility in Montreal, Quebec. Both operations are ISO 9001 certified and every instrument is tested at various stages of manufacture and at the completion of the build. The company's employees are always mindful of the fact that BW's instruments are relied upon by workers in hazardous working environments.

Successful sales and marketing strategies have been critical to achieving BW's goals. The company has aggressively expanded the scope of its sales management and distribution networks over the past several years. This growth will continue for the foreseeable future as BW presently commands approximately five percent of the industrial and commercial gas detection markets.

BW also intends to grow through the acquisition of other firms. The company is actively searching for companies which enjoy a strategic advantage in market access and/or in applied technology. Vulcain Alarme Inc. of Montreal ("Vulcain") joined the BW group in fiscal 2003 and, as a result, BW achieved immediate access to Canadian and Northeastern U.S. commercial markets. This acquisition is discussed in detail below.

Total Employees	April 30, 2003	April 30, 2002	Average 2003	Average 2002
Production	158	82	119	78
Sales and Marketing	72	38	54	36
Administration	40	25	34	24
Product Development	32	16	25	18
	302	161	232	156

### GasPoint

*The Department of National Defence trusts BW's infrared GasPoint instruments to monitor for leaking methane and other combustible gases in the airplane hangars on a military base in Eastern Canada, home of the CF-18 jet fighter.*





*Tom Jones, CFO  
and Senior VP, and  
Cody Slater, CEO  
and President.*

One-half of the increase in employees during the year was the result of the Vulcain acquisition. The remaining increase was due to the ongoing growth of the company. Employee numbers increased approximately 100% in all areas except administration where the company benefited from improved economies of scale.

### Acquisition

On October 7, 2002, BW purchased Vulcain for \$8,113,000 (net of \$353,000 in cash acquired). Consideration paid was \$7,850,000 which consisted of \$4,000,000 cash and 210,137 BW common shares valued at the then prevailing market value of \$18.32 per share. In addition, \$624,000 of costs were incurred with respect to the agent's fees, accounting and legal expenses.

\$2,310,000 of the purchase price was allocated to tangible assets net of accounts payable and other liabilities. An additional \$1,504,000 less related notional tax liabilities of \$547,000 was attributed to intellectual property related to product development and to the value of extended warranty service contracts. The remaining \$4,856,000 is carried as goodwill on the balance sheet and will be subject to periodic

impairment tests which are based upon the value of the ongoing Vulcain enterprise. Note 3 to the financial statements provides further details of this acquisition.

Vulcain is a 35-year-old company which was previously family owned. It designs, develops and manufactures gas detection instruments used in parking garages, office towers, refrigeration plants and other commercial applications.

Substantially all of the employees of Vulcain, including all of senior management, were retained by the company. The previously owner, Guy Gervais, was retained as BW's new Vice President of Commercial Operations under a five year contract. Vulcain provided BW with \$6,801,000 of revenue for the seven months after the acquisition.

### Revenue

#### Product Lines

BW's products are divided into two main categories: industrial and commercial. Both types of products utilize the same technology to detect and measure the concentration of hazardous gases. They differ mainly in their application.

Industrial gas detectors are used primarily to protect personnel and facilities from workplace

hazards posed by toxic or combustible gases. They are divided into two groups. The first of these is portable instruments, which are lightweight products often attached to a worker's belt or hard hat. These instruments detect and measure the extent of dangerous conditions wherever that worker travels. Alarms are sounded when hazardous conditions are encountered. Portable products are designated as either single-gas units, which are used in areas where the gas hazard is well defined, or multi-gas units, which are used in applications where several dangerous gases might be encountered.

The second category of industrial products is fixed and stand-alone instruments. These are installed at a particular location in order to monitor the safety of a designated area on a continuous basis. Fixed units are powered by conventional sources and are permanently installed. Stand-alone products are energized by battery power and can be easily moved from location to location.

Commercial products are used mainly in ventilation and air conditioning applications in parking garages, schools and office towers. They also have application in certain agricultural and food processing industries. These products are often used to activate fans or other devices used to clear the atmosphere.

Sales results categorized according to five broad groupings of products are set out below.

(thousands of dollars)

	2003	2002	2001	2000
Portable-multi-gas	\$19,838	\$12,166	\$9,825	\$6,324
Portable-single-gas	18,637	18,541	12,294	8,323
Fixed & stand-alone	4,924	4,924	3,510	2,303
Commercial	7,769	863	1,010	730
Other	2,498	2,514	1,171	671
	\$53,666	\$39,008	\$27,810	\$18,351

Portable – multi-gas revenue gains during the year were almost entirely attributable to the company's new GasAlertMicro. This product is the smallest, most economical, full function confined space detector available. It was introduced in July 2002 and demand for the product continues to accelerate as buyers seek low-cost options and users demand lightweight units, which are easily carried. The GasAlertMax, which is a product that incorporates a built-in air pump, also contributed to the gains. GasAlertMax sales for the year were approximately equal to those of the Micro.

Single-gas product sales were flat for the year. Sales were held back mainly by weakness in the demand for disposable units related to delays in plant turn-around operations and to the cyclical life of these products.

Sales of fixed and stand-alone products showed no growth during the year but these items continued to be an important source of revenue. Western Canadian oil patch demand remains strong for stand-alone products. Fixed products such as the GasPoint also moved well as the company's consistent efforts to break through in this market began to pay off. The newly introduced wireless unit, the Rig Rat III, which transmits gas concentration measurements by radio, has been well accepted and strong results from this source are expected in 2004.

The spectacular gains in the commercial products area are almost entirely attributable to sales by Vulcain, the Montreal company that was acquired by BW in October 2002. The Vulcain sales organization has opened up several new markets in the U.S. and its

**Vulcain Alarme Inc.**  
*designs and manufactures  
 gas detection equipment for  
 the commercial  
 market, which  
 includes office  
 towers, underground  
 parkades and  
 schools.*

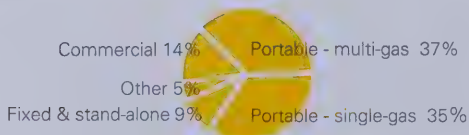




Bob Henderson,  
VP of Business  
Development,  
and Bryan Bates,  
COO and  
Executive VP

product development staff has introduced an air quality monitor, which has been extremely well received. Vulcan was acquired in order to obtain better access to commercial markets and this strategy continues to prove successful.

#### Product Mix 2003



#### 2002



#### Geographical

(thousands of dollars)

	Percent				
	2003	2002	Change	2001	2000
United States	\$22,006	\$17,738	+24%	\$12,082	\$8,391
Canada	15,692	9,091	+73%	7,770	5,307
Europe	8,646	6,162	+40%	4,142	1,782
International	7,322	6,017	+22%	3,816	2,871
	\$53,666	\$39,008		\$27,810	\$18,351

Sales performance in the United States was hindered by that country's relatively weak economy but was improved by the inclusion of Vulcan commercial products in 2003. The timing of purchases of gas detection equipment is often discretionary and it appears that such acquisitions were postponed to a time of improved business conditions. In particular, local government agencies, which are major customers for gas detection instruments, were severely strapped for funds because of decreased tax revenues.

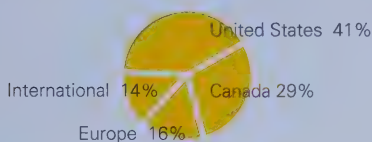
Sales of industrial products in Canada were increasingly strong throughout the year as revenues from these products grew by 45% in the fourth quarter and 26% for the entire fiscal year. The remaining growth is attributable to commercial product sales. These revenues were fueled by a strong Western Canadian oil and gas sector and by BW's increasing penetration of confined space markets in Eastern Canada.

The company continued to make good progress in penetrating European markets. Regulatory approvals have now been obtained for BW's main products and these instruments are now sold throughout Europe from the Oxford, UK, headquarters. Sales man-

agers are based in France, Germany, Belgium and Scotland, as well as England.

Other international markets were also aggressively pursued. A sales office was established in Australia, in addition to the one that had already been set up in Dubai. Also, a U.S. based sales manager was assigned to Central and South America and Mexico.

#### Geographical Sales 2003



#### 2002



#### Margins

Gross margin for fiscal 2003 was 49.3% as compared to 50.2% in 2002. Margins during the first nine months of the year were consistent with fiscal 2002 at 49.0% compared to 49.2%. The overall decline in fiscal 2003 margin compared to fiscal 2002 was due to the decline in the fourth quarter.

Fourth quarter gross margin was 49.8% of revenue compared to fourth quarter 2002 margin of 52.9%.

The fourth quarter decrease is accounted for by discounts and rebates granted in connection with an incentive program designed to expand and consolidate distribution channels for confined space products, namely the GasAlertMicro and the GasAlertMax. The program, which is achieving positive results, will be largely completed at the end of the

first quarter of 2004. Percentage gross margin in the quarter was also adversely affected by a discounted high volume sale of GasAlertMicros to a major telecommunications firm. The sale is also a positive factor as it represents a major breakthrough for BW in the confined space entry field.

#### Selling, General and Administrative Expenses

BW's sales grew by 38% in fiscal 2003. In order to fuel current and future growth, BW continues to invest heavily in the expansion and development of its sales force. While the annual growth rate of the gas detection industry averages 5%, BW continues to grow at over 30% per year. This is because BW is still a growing player in the gas detection market and significant opportunities exist as BW enters new markets and further develops existing markets.

Selling, general and administrative expenses increased by \$5,441,000 or 52% in fiscal 2003. The inclusion of Vulcain's operating results increased SG&A expenses by \$2,000,000. Industrial product sales and marketing salaries, bonuses and travel grew by \$1,500,000 during the year due to the above noted increases in staff. Other major increases were \$338,000 in administrative salaries and \$350,000 for tradeshow, literature and advertising.

BW made a substantial investment in its sales force in fiscal 2003. The company added 34 sales and marketing staff ending the year with 72 staff persons, an increase of 89% over the 38 employed at April 30, 2002. Vulcain accounted for 12 of the new sales and marketing staff with nine

#### GasAlertMax

*The City of Montreal's sewer division equips its workers with the GasAlertMax to alert them to the potential dangers in confined spaces.*





Guy Gervais, VP of Commercial Operations, and Gerry Robitaille, VP of Corporate Development, photographed at Vulcain, a division of BW Technologies, in Brossard, Quebec



brought on board through the acquisition and an additional three hired during the year.

The increased sales force, combined with the Company's increased geographic penetration provided BW with greater tradeshow opportunities during the year. BW personnel attended 58 tradeshows during fiscal 2003, which is double those attended the year before. The increased number included eight major industry tradeshows. The remaining increase consisted of smaller tradeshows that were serviced by minimal salespeople and a small booth.

Amortization of intangible assets acquired under the Vulcain purchase is included in selling, general and administrative expenses. Fiscal 2003 amortization was \$131,000. Amortization for the next 21/2 years will continue at a rate of \$500,000 annually.

### Property, Plant and Equipment

BW purchased \$1,181,000 of property, plant and equipment during the year. In addition, BW obtained \$570,000 in property, plant and equipment as a result of the Vulcain acquisition.

Details of purchases are as follows:

	Year ended April 30
Buildings	\$79,000
Manufacturing equipment	\$601,000
Sales demonstration equipment	\$49,000
Office equipment	\$257,000
Customer service equipment	\$133,000
Computer hardware	\$441,000
Laboratory equipment	\$24,000
Leasehold improvements	\$167,000
	<u>\$1,751,000</u>

BW did not have any major property, plant and equipment needs during the year. While additions totalled \$1,181,000, leasehold improvements of \$120,000 on the new Vulcain premises represented the only addition over \$100,000. However, the company continued to invest in its future growth and productivity. BW spent \$171,000 on enhancements to its surface mount technology and the addition of an automated conformal coating machine. These capital costs have resulted in increased efficiency and productivity on the production floor. The company also spent \$244,000 on moulds, toolings and dies during the year. The two key items purchased during the year were the moulds for the new GasAlertMicro and its companion Sampling Pump.

## Product Development

Product development additions during the year reached \$2,721,000. Total additions were comprised of \$3,539,000 in costs reduced by the generation of \$818,000 in investment tax credits. Net additions represented 5% of total revenue, which is consistent with BW's historic spending on product development.

Major projects under development in fiscal 2003 were as follows (product launch date):

- **GasAlertMicro** (July 2002): The world's smallest multi-gas instrument. This compact, hand-held instrument simultaneously detects the presence of hydrogen sulphide, carbon monoxide, oxygen and combustible gases in ambient air. It operates for 16 hours on two off-the-shelf AA alkaline batteries.
- **GasAlert100** (October 2002): One of the world's smallest single-gas detectors. This disposable instrument is completely maintenance free and provides workers with 100 days of protection, detecting the presence of either hydrogen sulphide or carbon monoxide in the working environment.
- **SamplerPak** (February 2003): The Sampler is a motorized sampling pump that provides remote sample draws for many applications, including pre-entry and/or continuous confined space work.
- **Rig Rat III** (under development at year-end, launched May 2003): A multi-gas detector that continuously monitors for toxic gases, combustibles and oxygen hazards and automatically transmits the concentration readings to a remote location. The Rig Rat III is a fully self-contained,

wireless instrument and can operate on batteries, solar power or conventional electricity, making it the only truly portable, independent gas detection system in the world. The system provides real-time, two-way data transmission up to three kilometres, from as many as eight sensors back to the main controller.

- **GasAlertClip Extreme** (under development at year-end, launched August 2003): The next generation of the GasAlertClip. This gas detector provides workers with two years of zero maintenance protection in a dramatically more rugged, water resistant design. The compact instrument, which can easily be clipped on to a hard hat or belt, detects one of four gases under the most severe environmental conditions.

At year-end, BW had a number of ongoing projects that will result in the launch of several new and/or enhanced products in fiscal 2004. BW completed the year with 23 engineers and technical staff at its Calgary headquarters along with an additional nine engineers and technical staff at its Vulcan office.

### **GasAlertMicro**

*2,000 Micros are being used by the telecom industry to alert personnel to possible hazardous situations.*

## Critical Accounting Policies

### **Revenue Recognition**

Substantially all of the company's revenues are derived from the sale of mass produced gas detection instruments with minimal variation in construction. Revenue for these products is generally recognized upon shipment of products to customers provided there are no significant obligations by the company and collection is reasonably assured. In situ-





*Barry Moore,  
VP of Product  
Development,  
and Kevin  
Meyers, VP of  
Operations.*

ations where full or partial gas detection systems are sold, revenue is recorded by the percentage of completion method of accounting. Service revenue generated through the ongoing maintenance of installed commercial products is recorded as earned over the contract term, with unearned payments being recorded as deferred revenue on the balance sheet.

#### ***Accounts Receivable***

Management evaluates the recoverability of accounts receivable on a customer-by-customer basis. Criteria used to evaluate customers include, but are not limited to, the length of time the receivable is outstanding, past experience with the company, current market conditions and third party credit confirmation. In the event that management determines a customer's ability to pay is doubtful, the carrying value of the receivable is written down to the expected recoverable amount and a bad debt is recognized.

#### ***Warranty Costs***

BW records warranty costs as they are incurred as it is not possible to estimate future warranty costs with reasonable accuracy.

#### ***Research and Development***

Product development costs incurred by the company that meet specified criteria related to technology, market and financial feasibility are deferred and amortized over their useful lives of three to five years, commencing in the year after the costs are incurred. With the exception of those costs that are capital in nature, costs related to research and development that do not meet the criteria for deferral are expensed in the year they are incurred.

Management evaluates the carrying value of product development on a project-by-project basis to determine if there has been an impairment in value. Project evaluation is subjective in nature and relies on managements' expertise in evaluating the gas detection market. In the event that management determines the carrying value exceeds the recoverable amounts, the net asset is written down to the net recoverable amount. In the current year, no projects were written down.

In addition, the company derives current tax benefits in the form of investment tax credits from its research and development expenditures. Due to the company's ability to utilize these credits in the current



year, the credits are reflected in the financial statements as a reduction in the cost of deferred product development and a reduction of current income taxes payable.

#### ***Recoverability of Property, Plant and Equipment***

The company has estimated the useful lives of property, plant and equipment based on historical experience, lives commonly used by other companies and management's expectations based on the assets' purpose. Management reviews property, plant and equipment on an ongoing basis to determine if any circumstances exist that would indicate the carrying value of a property, plant or equipment may not be recoverable and if so, recognizes an impairment loss. Factors affecting the useful lives and recoverability of property, plant and equipment include economic and market conditions, governmental regulation, technology changes, and their usefulness in the processes of developing a commercially viable version of the Company's products.

#### ***Recoverability of Intangible Assets***

The company has estimated the useful lives of intangible assets based on historical experience, lives commonly used by other companies, and management's expectations based on the assets' purpose. The three main intangible assets of the company are customer contracts, acquired technology, and computer software. In the case of customer contracts, computer software and acquired technology related to existing products, management is able to review and assess the likelihood of impairment based on the ongoing business purpose of the asset to the company. In the event the assets' value is dimin-

ished, the company recognizes an impairment loss. In the case of acquired technology under development, the same criteria used for evaluating in-house research and development is used to determine the likelihood of impairment and the appropriate impairment loss, if any.

#### ***Recoverability of Goodwill***

Effective May 1, 2002, the company adopted the CICA Standard Section 3062, "Goodwill and other intangible assets", under which goodwill is not subject to amortization, but is instead tested at least annually for impairment. The adoption of this standard did not have any impact on the company's current results or operations; however, its impact in future years could be material. The company currently has one reporting unit, Vulcain, with goodwill. The company has reviewed the carrying value of this reporting unit and determined the fair value exceeds the carrying value at this time.

#### ***Stock-based Compensation Plan***

Effective May 1, 2002, the company adopted the CICA Section 3870, "Stock-based compensation and other stock based payments". This standard requires the company to disclose the impact on earnings as if the fair value based method of accounting for employee stock option plans had been used. In the current year, the company granted stock options to employees resulting in a fair value cost of \$247,000. Had the company expensed the fair value of the options the effect would have reduced earnings per share by \$0.04.

#### ***Vulcain's VA-301D***

*These explosion-proof, toxic and combustible gas transmitters are an ideal solution to avoiding the risks of explosion. The New York City School Board, which uses natural gas to heat its buildings, has already completed installations of the VA-301D in more than 400 of its schools. The VA-301D generates 10% of Vulcain's annual revenue.*

## Cash Flows and Financial Position

BW's working capital position improved by \$2,925,000 during the year as it increased from \$16,069,000 at April 30, 2002 to \$18,994,000 at April 30, 2003. Major contributing factors were operating cash flows of \$8,764,000, the issuance of \$520,000 of shares under the company's stock option plan and a net increase in long-term debt of \$332,000. On the other hand, the acquisition of Vulcain depleted working capital by \$4,271,000, as did the purchase of fixed and intangible assets in the amount of \$1,410,000 and the expenditure of \$2,721,000 on product development costs.

### **GasAlertMicro**

*At the world's largest natural gas processing facility at Ras Laffan in the Persian Gulf nation of Qatar, one thousand Ras Laffan workers use BW's GasAlertMicros to protect themselves against hydrogen sulphide and the dangers of other hazardous gases.*

The company's cash position was reduced by \$4,841,000 during the year, as accounts receivable and inventory, net of accounts payable, were increased by \$3,923,000 excluding the changes related to the Vulcain acquisition. In addition, 2002 income taxes of \$1,647,000 were paid and a further \$401,000 was paid in excess of 2003 current income taxes provided.

Accounts receivable stood at \$12,636,000 at year-end. This amount represents 61 days of sales at fourth quarter 2003 volumes.

Inventories amounted to \$14,048,000 at April 30, 2003 as compared to \$9,713,000 at April 30, 2002. The increase is a result of the company's policy of providing next day delivery to customers from Calgary, Dallas and Oxfordshire. Also, the volume of inventories increases with the growth of product lines offered by the company, including the Vulcain commercial products. Vulcain inventories amounted to \$1,248,000 at

the end of the year. Overall, based on fourth quarter volumes, April 30, 2003 inventories represented 136 days of sales as compared to 156 days at the end of last year.

BW's available bank credit lines amount to approximately \$6,100,000. These will be adequate to handle future operations as only \$1,200,000 of this amount was being utilized at April 30, 2003.

The following table summarizes the company's financial position:

*(thousands of dollars except ratios)*

	April 30 2003	April 30 2002	April 30 2001	April 30 2000
Cash (operating loan)	<b>(\$1,199)</b>	\$3,642	\$2,727	\$610
Working capital	<b>\$18,994</b>	\$16,069	\$12,100	\$8,371
Working capital ratio	<b>3.17</b>	3.51	4.10	3.41
Quick ratio	<b>1.58</b>	1.92	2.40	1.71
Shareholders' equity	<b>\$31,471</b>	\$21,240	\$14,456	\$12,394
Debt equity ratio	<b>0.30</b>	0.33	0.25	.28

## Risk Factors

### *Competition*

The gas detection industry is highly competitive. BW's success is attributable to its ability to provide products with a low cost of ownership and/or distinct technological advantages. Both BW and its competitors are continually developing newer products and there is significant risk that one of BW's competitors will develop a more cost effective and/or more technologically advanced product.

### *Market*

The gas detection market is primarily driven by governmental regulation. Changes to regulations have a significant impact on the viability of current and future products. In Canada, the Canadian Association of Petroleum Producers' recommendation that



oilfield personnel maintain detection for both H<sub>2</sub>S and combustible gas helped fuel GasAlertMicro sales at the expense of existing single gas detectors. In Europe, the new ATEX legislation requiring all hazardous location products to be certified to new standards by July 31, 2003, resulted in substantial certification costs for all gas detection companies, as any product that does not meet the new requirements would no longer be eligible for sale. To the extent possible, BW remains abreast of the latest proposed and enacted changes to governmental regulations in order to react and benefit from the changing marketplace.

### Foreign Exchange

Approximately one half of BW's sales are invoiced in U.S. dollars. Accordingly, any devaluation of the U.S. dollar presents a significant risk to the company's operating results. Foreign currency devaluation had a significant negative effect on BW in fiscal 2003 as the value of a U.S. dollar stood at \$1.43 Canadian at April 30, 2003 as compared to \$1.57 at April 30, 2002.

Gains or losses on foreign exchange occur in two different ways. The first of these is recorded on the financial statements when a foreign currency asset or liability is either realized in or adjusted to current rates and these current rates are different from those used to originally record the item. Hedging transactions also add to this gain or loss. While BW experienced significant quarter-by-quarter foreign exchange gains and losses, the financial statement foreign exchange impact for all of fiscal 2003 was negligible.

Changes in foreign exchange rates also affect the values at which transactions are initially recorded. A reduction in U.S. dollar exchange rates causes revenue to be recorded at less than the amount

that would have been recorded had the previous level prevailed. On the other hand, a significant portion of BW's expenses are incurred in U.S. dollars. Accordingly, U.S. dollar exchange rate reductions reduce the cost of sales and selling, general and administrative expenses incurred by the company. Foreign exchange risk was prevalent in the fourth quarter during which BW's revenues and pre-tax net income were reduced by \$450,000 and \$216,000 respectively due to the reduced U.S. dollar exchange rate used to record the transactions.

The estimated impact upon annual after-tax earnings of a one cent Canadian change in the value of foreign currency is as follows:

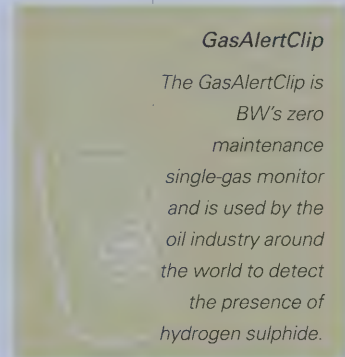
U.S. dollar - \$60,000, Euro - \$15,000 and pound sterling - \$3,000. Those figures are based upon 2003 sales levels. In addition, BW held approximately \$6-million of net foreign currency denominated current assets at April 30, 2003. Changes in the value of foreign currency will result in a one-time increase or decrease in the carrying value of these assets.

BW attempts to mitigate its U.S. dollar exchange risk by incurring expenses in U.S. dollars whenever practical. About 40% of manufacturing costs and 30% of selling, general and administrative expenses are incurred in U.S. dollars. In addition, the company's operating loans are, for the most part, maintained in U.S. dollars. Finally the company enters into foreign currency option contracts with the object of reducing the negative effects of currency fluctuations on a continuing basis.

Financial statement gains and losses on foreign exchange will, in future, be recorded as a sepa-

### GasAlertClip

*The GasAlertClip is BW's zero maintenance single-gas monitor and is used by the oil industry around the world to detect the presence of hydrogen sulphide.*



rate item in the income statement so long as amounts are significant.

### **Forward-Looking Statements**

Certain statements included in this Management Discussion and Analysis constitute forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of BW to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks, uncertainties and assumptions include the following: general economic and business conditions, changing foreign exchange rates, actions by government authorities, rapid technology development and changes, industry pricing pressures, capacity and other trends and misjudgments in the course of preparing forward-looking statements.



## Management's Report

The management of BW Technologies Ltd. is responsible for the preparation of all information presented in the Annual Report. The consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada and reflect management's best estimates and judgements based on information currently available.

Management has developed and is maintaining a system of internal controls in order to obtain reasonable assurance that the Company's assets are safeguarded, transactions are authorized and financial information is reliable.

The Board of Directors, through its Audit Committee, is responsible for ensuring the management fulfills its responsibilities for financial reporting. The Audit Committee meets with the Company's management and external auditors to discuss the results of the audit and to review the annual consolidated financial statements prior to the Audit Committee's

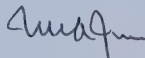
submission of the statements to the Board of Directors for approval. The Audit Committee has three members, all of whom are outside directors.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP Chartered Accountants, who were appointed by the shareholders. The auditors' report outlines the scope of their examination and gives their opinion on the consolidated financial statements.



Cody Z. Slater

President and Chief Executive Officer



Tom Jones

Senior Vice President and Chief Financial Officer

## Auditors' Report

To the shareholders of BW Technologies Ltd.

We have audited the consolidated balance sheets of BW Technologies Ltd. as at April 30, 2003 and 2002 and the consolidated statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial

statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at April 30, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

Chartered Accountants

Calgary, Alberta

June 20, 2003



## Consolidated Balance Sheets

<i>As at April 30, 2003 and 2002</i>	2003	2002
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and short-term investments	-	3,641,799
Accounts receivable	12,635,788	8,662,968
Inventory (note 4)	14,048,157	9,713,126
Prepaid expenses and deposits	644,333	449,473
Income taxes recoverable	401,012	-
	27,729,290	22,467,366
<b>Other assets</b>	85,116	64,119
Deferred product development costs	5,310,227	3,999,937
Property, plant and equipment (note 5)	3,948,461	3,181,205
Intangible assets (note 6)	1,757,736	272,068
Goodwill (note 3)	4,855,781	-
	43,686,611	29,984,695
<b>Liabilities</b>		
<b>Current liabilities</b>		
Operating loan (note 7)	1,199,225	-
Accounts payable and accrued liabilities	6,474,411	4,596,015
Income taxes payable	-	1,647,074
Current portion of long-term debt (note 8)	305,199	155,630
Deferred revenue	756,889	-
	8,735,724	6,398,719
<b>Long-term debt (note 8)</b>	828,290	525,000
<b>Future income taxes (note 12)</b>	2,651,720	1,820,848
	12,215,734	8,744,567
<b>Shareholders' Equity</b>		
Capital stock (note 9)	16,434,544	12,072,640
Retained earnings	15,036,333	9,167,488
	31,470,877	21,240,128
	43,686,611	29,984,695

Commitments (note 11)

Approved by the Board of Directors

  
Director

  
Director

## Consolidated Statements of Income and Retained Earnings

For the years ended April 30, 2003 and 2002

	2003	2002
	\$	\$
Revenue	53,665,633	39,008,317
Cost of sales	27,218,787	19,407,317
Gross margin	26,446,846	19,601,000
Expenses		
Selling, general and administrative	15,995,788	10,555,256
Amortization of product development costs	1,410,614	1,282,534
Interest	90,270	29,745
	17,496,672	11,867,535
Net income before tax	8,950,174	7,733,465
Income taxes (note 12)		
Current	2,807,372	2,751,322
Future	273,957	48,714
	3,081,329	2,800,036
Net income for the year	5,868,845	4,933,429
Retained earnings – Beginning of year	9,167,488	4,234,059
Retained earnings – End of year	15,036,333	9,167,488
Earnings per common share (note 13)		
Basic	0.99	0.87
Diluted	0.92	0.82



## Consolidated Statements of Cash Flows

For the years ended April 30, 2003 and 2002

	2003 \$	2002 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net income for the year	5,868,845	4,933,429
Items not affecting cash		
Depreciation of property, plant and equipment	983,279	673,575
Amortization of intangible assets	226,906	83,073
Amortization of product development costs	1,410,614	1,282,534
Future income taxes	273,957	48,714
	8,763,601	7,021,325
Net change in non-cash working capital	(6,054,366)	(3,199,716)
	2,709,235	3,821,609
<b>Investing activities</b>		
Purchase of property, plant and equipment	(1,180,637)	(2,104,120)
Purchase of intangible assets	(208,567)	(79,659)
Purchase of other assets	(20,997)	(52,533)
Acquisition of Vulcain (note 3)	(4,271,286)	-
Additions to deferred product development costs	(2,720,904)	(2,183,946)
	(8,402,391)	(4,420,258)
<b>Financing activities</b>		
Increase in long-term debt	331,712	662,839
Issuance of capital stock	520,420	850,177
	852,132	1,513,016
<b>Increase (decrease) in cash and short-term investments</b>	(4,841,024)	914,367
<b>Cash and short-term investments – Beginning of year</b>	3,641,799	2,727,432
<b>(Operating loan) cash and short-term investments – End of year</b>	(1,199,225)	3,641,799
<b>Supplemental cash flow information</b>		
Cash taxes paid, including amounts related to prior periods	4,027,641	1,094,589
Cash interest paid	90,270	29,745

## Notes to Consolidated Financial Statements

*April 30, 2003 and 2002*

### **1. Nature of operations**

BW Technologies Ltd. (the "company") commenced operations in 1987. The company develops and manufactures gas detection equipment, which it sells throughout the world.

### **2. Accounting policies**

#### **a) Principles of consolidation**

The accounts of BW Technologies Ltd. and its wholly owned subsidiaries, B&W Technologies Inc., BW Europe Limited ("BW Europe"), BW International Inc., Vulcain Alarme Inc. ("Vulcain"), BW Australia Pty Ltd. and Big Tool-box Design Ltd. have been consolidated in these financial statements.

#### **b) Cash and short-term investments**

Cash and short-term investments consists of cash on deposit and highly liquid short-term interest bearing securities which are available upon demand or which mature within three months of the date of purchase. Cash and short-term investments are held with highly rated financial institutions. The short-term interest bearing securities are recorded at cost plus accrued interest earned, which approximates current market value.

#### **c) Inventories**

Inventories are stated at the lower of cost (first in, first out) or net realizable value.

#### **d) Product development costs**

Product development costs which are incurred under the company's ongoing product development program and meet specified criteria related to technology, market and financial feasibility are deferred and amortized over their estimated useful lives of three to five years, commencing in the year following the year the costs are incurred.

The company evaluates the carrying value of the development costs related to each project in order to determine if there has been an impairment in value. Such evaluation is based on projected cash flows. When it is determined that carrying value exceeds the recoverable amounts, the net asset is written down to the net recoverable amount.



#### e) Investment tax credits

The company is entitled to investment tax credits based on certain product development costs incurred. These credits are recognized as a receivable or applied against current taxes payable and a credit against the related costs when there is reasonable assurance of their recovery. Adjustments required, if any, are reflected in the year when assessments are received.

#### f) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation is provided using the straight-line method over the estimated useful life of the asset as follows:

Buildings	20 years
Manufacturing, office and laboratory equipment	5 – 10 years
Computer hardware	5 years
Sales demonstration and customer service equipment	5 years
Leasehold improvements	over the lease term

#### g) Intangibles

Intangible assets with a finite life are amortized over their estimated life. Customer contracts are being amortized over the life of the contracts. Acquired technology related to existing products is being amortized on a straight-line basis over three years. Acquired technology under development will be amortized over three years, commencing in the year following the year the costs are incurred. Computer software is amortized straight-line over 3 to 5 years.

#### h) Goodwill

Effective May 1, 2002, the company adopted the CICA standard Section 3062, "Goodwill and other intangible assets", under which goodwill is not subject to amortization, but is instead tested at least annually for impairment.

#### i) Revenue recognition

Revenue is generally recognized upon shipment of products to customers provided there are no significant obligations by the company and collection is reasonably assured. Contracted production revenue is recorded by the percentage of completion method of accounting. Service revenue is recorded as earned over the contract term, with advance payments being recorded as deferred revenue.

#### j) Foreign currency

The company translates foreign denominated transactions and the financial statements of operationally dependent foreign operations using the temporal method. Monetary assets and monetary liabilities are translated into Canadian dollars at the rates prevailing at year-end. Non-monetary assets are translated into Canadian dollars at the rates in effect on the dates of the transactions. Revenue and expenses are translated at the average rate of exchange for the year with the exception of depreciation and amortization which are translated at historic rates. Exchange gains and losses on translation of current monetary items are reflected in income immediately.

Gains or losses on forward exchange contracts or currency options, all of which serve to hedge certain future identifiable foreign currency exposures, are included, together with related hedging costs, in revenues, cost of sales and expenses, as applicable, concurrent with recognition of the underlying items being hedged.

#### **k) Income taxes**

The company utilizes the asset and liability method of accounting for the tax effect of temporary differences between carrying amount of assets and liabilities in the financial statements and their carrying amount for income tax purposes. Temporary differences arise when the realization of an asset or the settlement of a liability would give rise to either an increase or decrease in the company's income taxes payable for the year or a later period. Future income tax liabilities or income tax recoveries are recorded at the income tax rates that are expected to apply when the future income tax asset or liability is realized. Income tax expense is the tax payable for the period and the change during the period in future income tax assets and liabilities.

#### **l) Stock-based compensation plan**

The company has an incentive stock option plan. No compensation expense is recognized for this plan when stock options are issued. Any consideration paid to the company on the exercise of stock options is credited to share capital.

Effective May 1, 2002, the company adopted the CICA Section 3870, "Stock-based compensation and other stock-based payments". This standard requires companies to disclose the impact on earnings as if the fair value based method of accounting for employee stock option plans had been used. The pro forma information with respect to fair value accounting for stock options issued during fiscal 2003 is included in note 9.

#### **m) Use of estimates**

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from these estimates. In particular, the recoverability and amortization of deferred costs and intangible assets, the recoverability of investment tax credits, the impairment of goodwill, the depreciation period for capital assets, the amortization period for deferred development costs and the allowance for doubtful accounts require the use of estimates.

#### **n) Comparative figures**

Certain of the comparative amounts have been reclassified to conform with the presentation adopted in the current year.

### **3. Acquisition of Vulcain Alarme Inc.**

On October 7, 2002, the company entered into an agreement to acquire all of the issued and outstanding shares of Vulcain for total consideration of \$7,850,000. The consideration consisted of \$4,000,000 in cash and 210,137 common shares at fair market value of \$18.32 per share. Vulcain designs, develops and manufactures gas detection instruments used in parking garages, office towers, schools, refrigeration plants and other commercial applications. The acquisition closed October 7, 2002, and is accounted for as a purchase. The purchase price allocation includes intangible assets related to customer contracts and technology along with goodwill.

The purchase price for Vulcain is as follows:

	\$
Cash paid	4,000,000
Cash acquired	(352,830)
Transaction costs	624,116
Total cash consideration	4,271,286
Value of common shares issued, net of issuance costs of \$8,516	3,841,484
	8,112,770

The purchase price was allocated to assets and liabilities at their estimated fair market values as follows:

	\$
Non-cash current assets	3,188,913
Property, plant and equipment	569,899
Computer software	2,548
Acquired technology	1,298,905
Customer contracts	202,554
Goodwill	4,855,781
Current liabilities	(1,327,768)
Long-term debt	(121,147)
Future tax liability	(556,915)
	8,112,770

#### 4. Inventory

	2003	2002
	\$	\$
Parts	6,316,483	4,236,477
Sub-assemblies	1,074,592	621,024
Work-in-progress and finished goods	6,657,082	4,855,625
	14,048,157	9,713,126

#### 5. Property, plant and equipment

	2003		
	Cost	Accumulated depreciation	Net book value
	\$	\$	\$
Buildings	85,000	7,913	77,087
Manufacturing equipment	3,426,349	1,622,961	1,803,388
Sales demonstration equipment	160,696	70,505	90,191
Office equipment	1,002,220	297,964	704,256
Customer service equipment	350,013	183,556	166,457
Computer hardware	1,286,029	680,046	605,983
Laboratory equipment	297,427	183,444	113,983
Leasehold improvements	519,786	132,670	387,116
	7,127,520	3,179,059	3,948,461



	2002		
	Cost	Accumulated depreciation	Net book value
	\$	\$	\$
Manufacturing equipment	3,085,732	1,357,425	1,728,307
Sales demonstration equipment	113,730	45,319	68,411
Office equipment	749,619	216,209	533,410
Customer service equipment	198,289	160,834	37,455
Computer hardware	836,670	465,079	371,591
Laboratory equipment	273,617	130,609	143,008
Leasehold improvements	385,838	86,815	299,023
	5,643,495	2,462,290	3,181,205

## 6. Intangible assets

	2003		
	Cost	Accumulated depreciation	Net book value
	\$	\$	\$
Computer software	842,814	456,034	386,780
Acquired technology	1,298,905	91,117	1,207,788
Customer contracts	202,554	39,386	163,168
	2,344,273	586,537	1,757,736

	2002		
	Cost	Accumulated depreciation	Net book value
	\$	\$	\$
Computer software	532,743	260,675	272,068

## 7. Operating loan

Operating loan balances are payable on demand and are made up of Canadian operating loans and a United Kingdom overdraft facility.

The Canadian loans are secured by general assignments of Canadian and United States book debts, inventory and General Security Agreements providing a general charge on all assets of the company. The loan bears interest at prime and, subject to collateral requirements, is available to a maximum of \$5,900,000. The United Kingdom overdraft facility is secured by a fixed and floating charge over the assets of BW Europe and bears interest at UK base rate plus 3.5%. It is available to a maximum of \$229,000 (£100,000).

## 8. Long-term debt

	2003	2002
	\$	\$
Bank loan (i)	925,729	675,000
National Research Council loan (ii)	114,907	-
Canada Economic Development loan (iii)	92,853	-
Capital leases	-	5,630
	<b>1,133,489</b>	<b>680,630</b>
Less: Current portion	<b>(305,199)</b>	<b>(155,630)</b>
	<b>828,290</b>	<b>525,000</b>

Long-term debt at April 30 is repayable as follows:

	\$
2004	305,199
2005	283,562
2006	263,451
2007	188,451
2008	92,826
	<b>1,133,489</b>

i) The bank loan bears interest at prime plus 0.50% and is secured by a fixed charge under a security agreement. The loan is payable in monthly instalments and matures in January 2008.

ii) The loan bears interest at 7% and is repayable in two instalments due on January 1, 2004 and January 1, 2005, respectively.

iii) The loan is interest free and is repayable in three equal annual instalments beginning on August 31, 2005.

## 9. Capital stock

### a) Authorized

Unlimited common shares and unlimited preferred shares issuable in series at the discretion of the directors of the company.

### b) Issued

	Number	Amount \$
Common shares		
Balance – April 30, 2001	5,582,915	11,222,463
Exercise of stock options	179,838	850,177
Balance – April 30, 2002	5,762,753	12,072,640
Issued for the acquisition of Vulcain (note 3)	210,137	3,850,000
Less: Share issue costs	-	(8,516)
Exercise of stock options	71,900	520,420
Balance – April 30, 2003	6,044,790	16,434,544

### c) Stock options

The company has a stock option plan under which it may grant options to employees, officers and directors of the company. Under that plan, the exercise price and expiry date for each option grant is set by the Board of Directors. The options generally vest at the time of grant for the Board of Directors and over a four year period for all other options.

	2003		2002	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding – beginning of year	571,200	5.88	710,336	5.12
Granted	152,500	19.01	52,002	12.47
Exercised	(71,900)	7.24	(179,838)	4.73
Forfeited	(3,200)	7.00	(11,300)	6.73
Outstanding – End of year	648,600	8.81	571,200	5.88
Exercisable – End of year	420,960	6.97	351,020	6.04

Range of exercise prices	Number outstanding	Weighted average contractual life (years)	Weighted average remaining price	Number exercisable	Weighted average remaining price
\$4.00 to \$6.00	395,200	1.1	4.77	321,460	4.78
\$6.75 to \$7.00	58,900	2.4	6.97	23,700	6.98
\$10.25 to \$13.00	42,000	3.5	12.35	34,800	12.68
\$18.45 to \$20.00	152,500	4.4	19.01	41,000	19.26
	648,600	2.2	8.81	420,960	6.97

Of the options outstanding at April 30, 2003, 50,000 are exercisable by outside directors at prices ranging from \$6.00 to \$13.00 per share. The options will expire as follows: 20,000 in 2004 and 30,000 in 2006.

The following table presents pro forma information with respect to fair value accounting for stock options and includes all options granted by the company during fiscal 2003. The fair value of stock options has been estimated on the date of grant by reference to the Black-Scholes option-pricing model. For the year ended April 30, 2003, the company assumed that the life of all options granted equals 3-4 years, no dividends will be paid, average expected volatility of 32.78% and an average risk free interest rate of 3.77%-4.07%. The effects of applying Section 3870 may not be representative of the effects on reported net income for future years.



	2003
	\$
Net income	
As reported	5,868,845
Compensatory fair value of options granted	(247,403)
Pro forma	5,621,442
Basic income per share	
As reported	0.99
Pro forma	0.95
Diluted income per share	
As reported	0.92
Pro forma	0.88

## 10. Segmented information

The company has one reportable segment. Geographic information related to this segment is as follows:

	Canada	Europe	United States	Other	Total
	\$	\$	\$	\$	\$
Revenue					
2003	15,692,431	8,645,619	22,005,509	7,322,074	53,665,633
2002	9,091,439	6,161,557	17,737,870	6,017,451	39,008,317
Property, plant and equipment					
2003	3,750,543	117,434	79,509	975	3,948,461
2002	2,992,293	120,462	68,450	-	3,181,205
Intangible assets					
2003	1,756,848	-	888	-	1,757,736
2002	270,738	-	1,330	-	272,068
Goodwill					
2003	4,855,781	-	-	-	4,855,781

## 11. Commitments

At April 30, 2003, the company had lease commitments relating to buildings, vehicles and equipment totalling \$7,401,165 payable as follows:

	\$
2004	1,102,537
2005	1,072,545
2006	948,890
2007	822,431
2008	734,443
Thereafter	2,720,319
	7,401,165

## 12. Income taxes

The company's income tax expense differs from the statutory rate as follows:

	2003	2002
	\$	\$
Income before tax	8,950,174	7,733,465
Combined basic Canadian Federal and Provincial income tax provision at statutory rates (2003 – 37.74%; 2002 – 40.91%)	3,377,796	3,163,761
Manufacturing and profits rate reduction	(215,221)	(195,726)
Non-deductible items	44,023	31,963
Foreign tax rate differentials	43,693	(18,399)
Prior year adjustments	(88,782)	(43,928)
Tax rate reduction	(135,737)	(123,196)
Large corporations tax and other	15,580	(14,439)
Foreign exchange	39,977	-
	3,081,329	2,800,036

The significant components of future income tax assets and liabilities are summarized as follows:

	2003	2002
	\$	\$
Share issuance costs	31,346	60,942
Capital assets and deferred product development costs	(2,683,066)	(1,881,790)
Net future tax liability	(2,651,720)	(1,820,848)

## 13. Earnings per common share

The weighted average number of common shares outstanding during the year was 5,923,413 (2002 – 5,678,872). Using the treasury method of calculating diluted earnings per share, the potential common shares outstanding during the year was 6,411,865 (2002 – 6,037,455). Potential common shares consist of common shares issuable upon the exercise of stock options, but are excluded from the calculation if their effect is anti-dilutive.

## 14. Financial instruments

The fair values of monetary assets and liabilities approximate their carrying values.

### Interest rate risk

The company is not exposed to significant interest rate risk with respect to interest bearing debt.

### Credit and foreign currency risk

The company is not exposed to significant credit risk as it sells mainly to a diverse group of established distributors and users. Foreign currency risk exists as the majority of the company's non-domestic sales are denominated in US dollars. The company manages this risk by using hedging instruments as described below.

### Hedging instruments

The company often enters into foreign exchange option and risk reversal option contracts to protect its future Canadian dollar earnings and cash flows from the potential adverse impact of an unfavourable rates of exchange of U.S. dollars, euros and pounds sterling into Canadian dollars. The contracts reduce fluctuations in sales revenues by locking in exchange rates on the portion of its sales covered by the contracts. While option contracts reduce the risk of exposure to adverse change in exchange rates, risk reversal option contracts also reduce the potential benefit of favourable changes in exchange rates.

At April 30, 2003, the company had entered into a series of risk reversal options covering a total of US \$600,000 exercisable monthly at the end of September through December 2003. The company also held options to sell 50,000 pounds sterling and 100,000 euros at the end of each month from May through July 2003. Unrealized gains of \$99,000 on outstanding options as of April 30, 2003 are not recorded in the financial statements pending completion of the underlying transactions.



## Awards & Achievements

### The Highlights

#### BW Awards

**The Tech 100 - Ranked #77**  
Canadian Business magazine, 2003

**The Top 1000 – Ranked #429**  
Report on Business magazine, 2003

**Profit's "Next 100": Canada's 200 Fastest Growing Companies**  
Ranked #118, Profit Magazine, 2003

**Annual Salute to Excellence Award in the Manufacturing Sector**  
Sponsored by the Calgary Chamber of Commerce, 2003

**30 Fastest Growing Companies in Alberta – Ranked #5 in 2003**  
BW Technologies has consistently placed in Alberta's top 30 companies 1998 – 2003.



**Entrepreneur of the Year Award 2002**  
Prairies Region, Business-to-Business category  
BW Technologies was a finalist for the EOY award in 1998 and 1999.

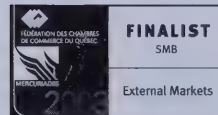
**Calgary Export Achievement Award for Innovation, 2001**  
Sponsored by Calgary Inc.



**Manning Innovation Awards, 2001**  
for the GasAlert product line

**National Post Design Exchange Gold Award, 2000**  
for the GasAlert product line

#### Vulcain Awards



**SME of the Year, National Bank of Canada, 2001**  
**Company of the Year Award, Innovation Award, Manufacturing Company Award** (for company over 50 employees)  
South Shore Chamber of Commerce, 2002

**Excellence Award, Exportation Award, Company of the Year Award** (for company over 50 employees)  
CLD Roussillon, 2002

**SME Export Category, Soder, 2000**

## BW Technologies: A Good Corporate Citizen

**Abandoned landmines** kill or injure approximately 20,000 people throughout the world every year.

BW donated a GasAlert NO2 to the Danish Demining Group, a non-profit organization that searches for and destroys abandoned landmines around the world. Scientists are discovering new methods of finding such landmines, including a technique that involves detecting nitrogen dioxide, which is emitted by decomposing landmines.

**The Chernobyl disaster** happened more than fifteen years ago but the country of Belarus, which

received 70% of the radioactive fallout, is still recovering. BW Technologies donated a GasAlertMax to the town of Chausey, Belarus, which is trying to update and maintain its out-of-date waterworks system. The GasAlertMax detects four hazardous gases simultaneously and it will alert Belarus' city workers to potential dangers when they're entering confined spaces like sewer systems.

**During the recent war in Iraq**, BW donated 25 GasAlertClips to the U.S. troops in Iraq. The troops were stationed near an oil well without the appropriate equipment to protect them until BW pitched in.

## Corporate Information

### Directors

Dr. John Finbow, *Chairman, Southampton, England*

Cody Slater, *Calgary*

Marc Sardachuk, *Calgary*

Norman Steinberg, *Calgary*

Bryan Bates, *Dallas*

Thomas Jones, *Calgary*

Murrey Dubinsky, *Calgary*

### Executive Officers

Cody Slater  
*President and Chief Executive Officer*

Bryan Bates  
*Executive Vice President and Chief Operating Officer*

Thomas Jones  
*Senior Vice President and  
Chief Financial Officer*

Barry Moore  
*Vice President of Product Development*

Kevin Meyers  
*Vice President of Operations*

Guy Gervais  
*Vice President of Commercial Operations*

Gerry Robitaille  
*Vice President of Corporate Development*

Robert Henderson  
*Vice President of Business Development*

*Corporate Information continued...*

**Bankers**

Bank of Montreal, Calgary

**Auditors**

PricewaterhouseCoopers LLP, Calgary

**Legal Counsel**

Miller Thomson, Calgary

**Registrar & Transfer Agent**

Computershare Trust Company of Canada  
Calgary, Toronto

**Toronto Stock Exchange**

Trading Symbol – BWT

**BW Technologies Ltd.**

**Corporate Headquarters**

2840 - 2 Avenue S.E.

Calgary, AB T2A 7X9

Phone: (403) 248-9226

1-800-663-4164

Fax: (403) 273-3708

Email: [info@bwtnet.com](mailto:info@bwtnet.com)

Website: [www.gasmonitors.com](http://www.gasmonitors.com)

**BW Offices Worldwide**

*BW Technologies America*

3279 West Pioneer Parkway

Arlington, TX USA 76013

Phone: (817) 274-2487

Toll-free: 1-888-749-8878 (US only)

Fax: (817) 274-8321

*BW Technologies Europe*

101 Heyford Park

Upper Heyford, Oxfordshire, UK OX25 5HA

Phone 011 44 1869 233004

Fax 011 44 1869 233005

*BW Technologies Middle East*

Phone 011-971-4-88-71766

Fax 011-971-4-88-71767

*BW Technologies Australia*

Phone 011-61-7-3818-8244

Fax 011-61-7-3818-8255

*BW Technologies Hong Kong*

Phone 011-852-2974-1783

Fax 011-852-2974-1704

*BW Technologies Singapore*

Phone 011-65-6872-1629

Fax 011-65-6872-1629



*Vulcain (a division of BW Technologies)*

4005 Matte boulevard

Brossard, Quebec, Canada J4Y 2P4

Phone: 1-800-563-2967

Fax: 1-450-632-9938

*Vulcain*

344 Edgeley Blvd., Unit 13

Vaughan, ON L4K 4B7

Phone (905) 660-6544

Fax (905) 660-7362

*Vulcain*

5574 Rideau Street

Quebec City, QC G2E 5V9

Phone (418) 871-6829

Fax (418) 871-0677

The Annual and Special Meeting of shareholders  
will be held at corporate headquarters at  
2840 – 2nd Ave. S.E., Calgary, Alberta, on  
Thursday, October 16, 2003 at 2:00pm.





INNOVATORS IN GAS DETECTION



**BW Technologies Ltd.**  
2840 - 2 Avenue S.E.  
Calgary, AB T2A 7X9

[www.gasmonitors.com](http://www.gasmonitors.com)





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Calgary, AB T2A 7X9

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